



The Annual Audit Letter for Islington Council

Year ended 31 March 2020
January 2021



Contents



Your key Grant Thornton team members are:

Paul Grady

Key Audit Partner

T: 020 7728 2301

E: Paul.D.Grady@uk.gt.com

Ade Oyerinde

Senior Audit Manager

T: 020 7728 3332

E: Ade.O.Oyerinde@uk.gt.com

Marc Chang

Assistant Manager

T: 020 7728 3066

E: Marc.Chang@uk.gt.com

Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

Page

- 3
5
14

Appendix

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Islington Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee and Audit Committee (Advisory) as those charged with governance in our Audit Findings Report on 29 September 2020.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be as follows: <ul style="list-style-type: none"> • Financial statements: £16,500,000, which is 1.5% of the Council's gross expenditure, and • Pension Fund: £13,500,000, which is 1.0% of the Council's Pension Fund net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We also gave an unqualified opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report on 13 January 2021. We included an emphasis of matter paragraph in both reports above in respect of the uncertainty over valuations of the Council's land and buildings, investment properties and the pension fund investments given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	Our work on the Council's consolidation return following guidance issued by the NAO will be completed once HM Treasury resolve issues they are experiencing with the Return.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We plan to certify that we have completed the audit of the financial statements of Islington Council once we are able to complete our work on the WGA Return. This is delayed due to external problems with the HM Treasury reporting system.

Executive Summary

Working with the Council

The global outbreak of the Covid-19 virus pandemic had led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The impact was widespread causing volatility of financial and property markets which impacted on the Council's asset and pension fund valuations. Additionally, changes in the regulatory framework introduced increased supervision and leadership, as well as challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the Council.

Unsurprisingly, we experienced some delays during the audit as a result of the outbreak. In line with government directives, both the production and audit of the financial statements were done remotely. Furthermore, obtaining and reviewing of audit evidence remotely proved more challenging and took longer than it would normally take to review. Our audit testing of information provided by the Council was completed remotely. The combination of remote working and the challenges of gaining an understanding of complex spreadsheets via video links impacted on the length of time to complete the audit. Notwithstanding these significant challenge, we completed the Council's audit by the statutory deadline.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements as follows:

- Financial statements: to be £16,500,000, which is 1.5% of the Council's gross revenue expenditure, and
- Pension Fund: to be £13,500,000, which is 1.0% of the Council's Pension Fund net assets.

We used these benchmarks as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

No specific other materiality levels were set during the course of our audit.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We read the accompanying pension fund financial statements were consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

We carried out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and was risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p>Covid – 19</p> <p>The global outbreak of the Covid -19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Council and Pension Fund</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • working with management to understand the implications the response to the Covid -19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 03 July 2020; • liaison with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council’s property valuation expert; • evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid -19 pandemic; • evaluating of whether sufficient audit evidence could be obtained through remote technology; • evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluating management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. <p>The Council’s property valuation specialists reported that valuations of land and buildings and investment properties were subject to ‘material valuation uncertainty’ as at 31 March 2020 as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management appropriately included an uncertainty disclosure in Note 5 to the Council’s financial statements, and have updated the disclosure to include a sensitivity analysis as a result of audit challenge.</p>	<p>Management updated the disclosures in Note 5 to the Pension Fund financial statements, and Note 5 to the Council financial statements, as appropriate.</p> <p>These disclosures were referred to in our auditor’s reports for the Council and Pension Fund respectively, in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
Covid – 19 continued	Council and Pension Fund	In addition, the fund managers for the Pension Fund's pooled property investments and private equity, infrastructure investments and diversified growth funds declared material valuation uncertainties in the valuation of these investments on the same basis. This impacts upon both the valuation of investments in the Pension Fund accounts and the valuation of the net defined benefit liability in the Council's balance sheet.	

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.</p>	<p>Council and Pension Fund</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • evaluation of the design effectiveness of management controls over journals • analysis of the journals listing and determine the criteria for selecting high risk unusual journals • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>We recommended in our 2018/19 Audit Findings Report a review of systems access to your financial systems to ensure super user access is restricted to appropriate persons and they are not involved in day to day operations such as approving manual journals. This would ensure separation of duties as we would typically expect such journals to be posted by the finance team. We note that system administrators with super user rights continue to have the ability to post manual journals.</p>	<p>Our testing identified three manual journals posted by system administrators. We made recommendations to improve the journal procedures.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings including council dwellings</p> <p>You revalue your assets as follows:</p> <ul style="list-style-type: none"> operational land and buildings on a rolling three-yearly basis council dwellings based on a rolling five-year approach using underlying valuations of beacon properties; and Investment Properties on a yearly basis. <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£4 billion) and the sensitivity of the estimates to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value, or the fair value (for surplus assets), at the financial statements date where a rolling programme is used.</p> <p>Operational land and buildings are valued as at 1 April, and are updated to 31 March with reference to market assumptions given by the valuer at the end of the financial year. Similarly, council dwellings are valued as at 1 April and are updated to 31 March with reference to assumptions provided by the valuer at year-end that reflect changes in stock and house price indices.</p> <p>As the in-year valuations themselves are not at year-end, the risk of material misstatement is further increased. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluating the competence, capabilities and objectivity of the valuation expert writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met engaging our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. testing revaluations made during the year to see if they had been input correctly into the Council's asset register assessing the value of a sample of assets in relation to market rates for comparable properties. testing a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. <p>As discussed under 'Covid -19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties and council dwellings, were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid -19 pandemic on market activity, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p>	<p>Management updated the disclosure to include a sensitivity as a result of audit challenge.</p> <p>We referred to the disclosure in our auditor's report as an emphasis of matter paragraph. This did not constitute a qualification of the audit opinion.</p> <p>We experienced significant difficulties obtaining evidence to support fixed asset and investment property valuations and judgements recorded in the Council's accounts. We made recommendations in the Audit Findings report to support and improve the valuations and judgements recorded in the Council's accounts.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p>Accuracy and presentation of the Private Finance Initiative (PFI) liabilities and associated disclosures</p> <p>You have six schemes to be accounted for as PFI arrangements. These include two Housing PFI schemes, two Schools schemes, a Street Lighting scheme and a Care Homes scheme.</p> <p>The total liability relating to these schemes on the balance sheet was £135m as at 31 March 2019; the book value of associated assets was £514m.</p> <p>As these PFI transactions are significant, complex and involve a degree of subjectivity in the measurement of financial information, we have categorised them as a significant risk of material misstatement.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • reviewing your PFI models and assumptions contained therein. • comparing your PFI models to previous year to identify any changes. • reviewing and test the output produced by your PFI models to generate the financial balances within the financial statements. • reviewing the PFI disclosures to assess whether they are consistent with the Code and the International Accountancy Standard IFRIC12. We will check additional disclosures that you include within the financial statements to the PFI models. 	<p>Management advised us of a restatement of PPE Housing PFI scheme (Note 18) disclosure (building element) where the land value had been incorrectly included in the disclosure. We noted the PFI land, buildings and infrastructure within Note 18 was correctly stated and the error was limited to the additional PFI building disclosure only.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£916 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluating of the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessing of the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases. • assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtaining assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Material valuation uncertainties are reported for the valuation of private equity, infrastructure, diversified growth funds and pooled property investments in the Pension Fund accounts. Given that the majority of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, there is also a material uncertainty surrounding the valuation of the net defined benefit liability in the Council's balance sheet.</p>	<p>Management updated the disclosure (Note 5) to reflect the uncertainty. The disclosure was referred to in our auditor's report in an emphasis of matter paragraph. This did not constitute a qualification of the audit opinion.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan (including Audit Plan Addendum)	Applicable to	How we responded to the risk	Findings and conclusions
<p>Valuation of Level 3 Investments (Annual revaluation)</p> <p>The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£67 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</p>	Pension Fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> evaluating management's processes for valuing Level 3 investments reviewing the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met independently requesting year-end confirmations from investment managers and/or custodian(s) for a sample of investments, testing the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciling those values to the values at 31 March 2020 with reference to known movements in the intervening period in the absence of available audited accounts, evaluating the competence, capabilities and objectivity of the valuation expert testing revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register where available, reviewing investment manager service auditor report on design effectiveness of internal controls. <p>Our audit procedures in this area is complete. Minor amendments were made to your Level 3 disclosures.</p>	No material issue was identified from the work performed in this area.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided agreed working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. We agreed recommendations to support and improve the particularly the valuations and judgements supporting Property Plant and Equipment disclosures.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 29 September 2020.

The Total Comprehensive Income and Expenditure was unchanged post audit, although there were non material uncertainties within the accounts due to the lack of evidence to support your property valuations. The Council advised us of a £152m material classification adjustment within the cashflow and related notes. The misclassification had no impact on the Cash and Cash equivalents balance at the 31 March 2020.

We identified unadjusted errors and uncertainties in both the Council and Pension Fund accounts which were not material. Management chose not amend the accounts in respect of these errors. We raised and agreed recommendations for management as a result of our work.

We concluded that the other information published with the financial statements was consistent with our knowledge of your organisation and the financial statements we had audited.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Islington Council Pension Fund on 30 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit Committee on 29 September 2020.

We also gave an unqualified opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report on 13 January 2021.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. The work is substantially complete. The return will be completed once HM Treasury resolve issues they are experiencing with the Return.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Islington Council until we complete our work on the WGA Return as mentioned above.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Medium Term Financial Planning</p> <p>Future funding uncertainty arising from the fairer funding review and longer-term settlement decisions has created financial uncertainty for the Council over the medium to long term. You have set a balanced budget for 2020/21 and your Medium Term Financial Plan for 2020 – 2023 identifies that you needed to close a 3 year budget gap of £10.6m to maintain financial balance. This assumes that you will deliver £23.6m savings under a revised savings programme.</p> <p>A recent review of the 2019/20 savings programme, intended to deliver £13.5m savings, indicates that 78% of savings are 'Green' rated, 5% are 'Amber' rated and 17% are 'Red' rated. Whilst the Amber and Red rated savings are being covered from one-off resources and underspends in the current financial year, there are risks around the ongoing delivery of these savings in future years.</p> <p>We reviewed your arrangements for setting the MTFP and examined underlying assumptions and dependencies for robustness. We examined in detail the savings plans aimed at reducing future funding gaps.</p>	<p>Conclusion</p> <p>The financial outlook for the Council remains challenging. During 2019/20 and in the period since the year-end, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified.</p> <p>The outturn position for 2019/20 is broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand impact of decisions taken is strong, and plans have been put in place for improvement to processes where significant variances were identified. The methodology through which management have identified pressures resulting from Covid-19, and the reporting structure to members, is considered effective.</p> <p>As a result of Government Funding and initiatives, prior year underspends and prudent financial planning including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts.</p> <p>However, in the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpin future investment decisions from use of reserves.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Change and transformation programmes and governance</p> <p>You are embarking on some significant transformation programmes, including transformation of ICT under Islington Digital Services. Your plans are ambitious and complex and require robust arrangements. You are seeking to transform the way the organisation is working in terms of new technology, new structures, new ways of working and shifting focus to meet the needs of the diverse population which the organisation serves, whilst maintaining financial balance.</p>	<p>Conclusion</p> <p>Along with all organisations across the public and private sectors, you are considering how to take forward the benefits from the period of largely remote working which has been necessitated by the Covid-19 pandemic. This includes considerations such as flexible working, effective use of office space and the ways in which services are delivered, for example how remote communications with clients to support delivery of Children’s Services, which has been necessitated by the Covid-19 pandemic, can be adapted and used going forward.</p> <p>You remain in a period of significant change with many plans in place for the future. Designing resilient, future-fit service delivery models will be more crucial than ever given the economic uncertainties which the Council now faces over the medium term and the pressures being faced by local businesses and residents. Change and transformation programmes have been adversely impacted by covid-19 but you recognise the importance of continuing to identify and reprofile savings plans. It will also be essential that the anticipated benefits and desired outcomes from transformation and cultural change are clearly articulated and measurable, to enable you to demonstrate success against the plans and identify, and take corrective action, at an early stage should the risks to success become prohibitive. The Council’s executive leadership are conscious of this and have to date maintained resources set aside to invest in change and transformation, despite the current crisis.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan (Accounts and Pension Fund)	03 March 2020
Audit Plan Addendum	16 April 2020
Audit Findings Report	29 September 2020
Auditor's opinion on Accounts and Pension Fund	30 November 2020
Auditor's value for money conclusion	30 November 2020
Auditor's opinion on consistency of the pension fund financial statements with Pension Fund Annual Report	13 January 2021
WGA Assurance Statement	Work ongoing
Annual Audit Letter	20 January 2021
Teachers' Pension claim	Work ongoing
Pooling Housing Receipts claim	Work ongoing
Housing Benefit Grant Certification and report	Work ongoing

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	181,497	235,900	156,179
Audit of Pension Fund	25,000	28,750	16,170
Housing Benefit Grant Certification and report	20,000	TBC	28,226
Total fees	226,497	264,650	200,575

A. Reports issued and fees continued

Audit fee variation

As outlined in our Audit Plan, the 2019-20 scale fee published by PSAA (accounts £156,179, Pension fund £16,170) assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes revisiting planning, management's assumptions and estimates, financial resilience assessment and remote working.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment

Audit area	Financial Accounts	Pension fund	Rationale for fee variation
Scale fee	£156,179	£16,170	This is this is the PSAA scale fee and is unchanged from 2018/19
Increased challenge and depth of work	£5,000	£5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity
Materiality	£4,500	-	As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling, increasing the volume and scope of our testing and reporting to those charged with governance, as well as providing you with additional assurance in respect of the audit.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£3,500	£3,830	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around IAS 19 valuations has to increase across local audit. We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	£9,400	-	The Financial Reporting Council (FRC) has specifically highlighted that the quality and extent of work around PPE and Investment Property valuations has to increase across local audit. We have responded by engaging our own audit expert (Gerald Eve) and will increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. This fee increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditor's expert will be in the region of £5,000.
Accounting developments	£2,500	-	The Council will be required to disclose in its 2019/20 financial statements the expected initial impact of the implementation of new accounting standards and disclosures. This will require additional audit procedures.
Impact of Covid	£29,821	£3,750	See following page
Additional work due to PPE evidence difficulties	£25,000	-	As reported on page 9
Revised scale fee (to be approved by PSAA)	£235,900	£28,750	

A. Reports issued and fees continued

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
• Certification of Housing Capital Receipts Grant	3,000
• Certification of Teachers Pensions Return	5,000
Non-Audit related services	
• CFO Insights Subscription	10,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



© 2020 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.